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**Governor's 2004 Budget Protects Core Priorities;
K-12 Foundation Allowance Restored**

LANSING – Governor Jennifer M. Granholm and State Budget Director Mary A. Lannoye today presented the 2004 Executive Budget recommendation to a joint session of the House and Senate Appropriations Committees. The budget fulfills the Governor's pledge to present a balanced budget that protects core government priorities – education, children and families, health care, public safety and senior citizens – by making \$1.1 billion in cuts from the overall budget, not by raising general fund taxes.

"Despite the massive deficit, we are proud to say that we have restored the foundation allowance for K-12; we will expand the ranks of our state police force; we will expand prescription drug coverage to seniors; re-enroll those who were recently terminated from Medicaid coverage; and we will expand environmental protection enforcement," said Governor Granholm. "This is a budget that makes tough choices, captures our priorities and keeps our promises."

The overall budget proposed by Governor Granholm for the fiscal year 2004 totals \$38.6 billion. This includes \$8.6 billion in general fund spending, \$11.2 billion from the School Aid Fund, \$1.41 billion in revenue sharing payments to local governments, \$3.2 billion for transportation needs and recognizes \$11.5 billion in federal revenues.

Highlights of the fiscal year 2004 budget include:

Balancing the General Fund – Over the last few years, the state postponed the inevitable and spent more than it took in. The bill has come due and the Governor is committed to fixing it.

The Governor's budget closes the \$1.7 billion shortfall with an appropriate mix of solutions involving revenue enhancements and spending reductions. The mix includes \$403

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million in revenue enhancements, \$122 million in cost avoidance associated with proposed criminal justice policy changes, and \$937 million in spending reductions. Spending reductions include well over \$200 million in administrative savings. In addition, the general fund subsidy to the School Aid Fund is replaced with \$198 million in resources available as a result of recent changes to the Revenue Sharing Act.

K-12 Education – The Governor's Executive Budget includes a revised school aid budget for fiscal year 2004 totaling \$12.4 billion. That \$12.4 billion budget is supported with \$11.2 billion of state revenues and \$1.2 billion in federal support.

Absent a revised budget for 2004, the proration language in the existing bill would have to be implemented. Instead of implementing the statutorily-required proration, the Governor proposes a budget that establishes her priorities for early childhood and K-12 education. These priorities include full funding for the promised basic foundation allowance of \$6,700 per pupil and full funding for the at-risk and school readiness preschool programs.

The Governor has chosen to restore full funding of the per pupil foundation allowance rather than maintain all of the existing categorical programs in order to provide local school districts maximum flexibility in dealing with the budget crisis. She has chosen to maintain the at-risk program at \$314.2 million to assist academically at-risk students achieve their potential. And she has chosen to maintain the state's early childhood program at \$85 million because she firmly believes that learning begins at birth, not when a child enters kindergarten at age five. The Governor has also set aside \$3.3 million to encourage intermediate school districts to redefine their mission to adopt early literacy and parental education initiatives for children aged birth to five.

The fiscal year 2004 school aid budget is balanced with a mix of budget cuts and revenue enhancements. Program reductions total \$195.3 million from the currently enacted fiscal year 2004 budget. These are in addition to reductions of \$58.2 million already made due to pupil and taxable value changes. With the cooperation of participating districts, the School Aid Fund will receive \$100 million from the refinancing of school bond loan debt. Other ongoing revenue enhancements include new lottery revenues of \$50 million from lottery keno and break-open tickets, and the closing of various tax loopholes resulting in \$20.3 million available for the School Aid Fund.

Higher Education – The Governor's budget includes over \$2 billion for higher education. For fiscal year 2004, state support for public universities and community

colleges is reduced by 6.5 percent resulting in a cumulative reduction of 10 percent from the original fiscal year 2003 appropriated levels. This reduction will mean that our public colleges and universities will, like state government, need to restructure and prioritize programs in order to minimize the financial burden placed on students and their families through tuition and fee increases.

The state will also spend financial aid dollars more wisely to assist students in paying for college. The Governor's budget restructures current financial aid programs to create the Michigan Opportunity scholarships targeting students with demonstrated financial need whether they attend a public or independent college or university. Funds will be guaranteed to eligible students currently receiving aid under existing programs, keeping our commitment to these students. The fiscal year 2004 budget also continues the \$4 million allocation for nursing scholarships created just last year and recognizes the increasing participation under the Tuition Incentive Program (TIP) by allocating an additional \$4 million. However, new enrollments in TIP would be discontinued in anticipation of serving these future students through the Great Lakes, Great Hopes scholarship fund created by the Governor.

Health Care – Governor Granholm's fiscal year 2004 budget recommendation protects the health care programs that serve Michigan's low-income children and families, elderly and the disabled.

Most states are cutting Medicaid provider payments and reducing eligibility for Medicaid and other health care programs. While this approach would also reduce costs in Michigan, it would result in unacceptable increases in the number of uninsured people in the state and damage the hospitals that serve our communities. The Governor instead recommends that Michigan reduce costs by restructuring our Medicaid program through an innovative waiver of federal rules. This Medicaid Adult Benefits Waiver will reduce costs by limiting medical benefits for healthy adults and by using available state funding as match for additional federal funds. It is anticipated that this waiver will reduce state general fund costs by nearly \$110 million.

Executive Order 2002-22, which was enacted in the previous administration in December of 2002, eliminated Medicaid eligibility for 40,000 adults in an eligibility category called "caretaker relatives." These individuals prevent foster care placements by caring for the Medicaid eligible children of relatives. The Governor's fiscal year 2004 budget recognizes the important service provided by caretaker relatives and includes an increase of

\$47 million to restore limited health care benefits to this group through the Medicaid Adult Benefits Waiver.

The Elder Prescription Insurance Coverage (EPIC) program is currently funded with \$30 million from Michigan's tobacco settlement award and enrolls about 15,000 low-income seniors. In February of this year, the Department of Community Health submitted a request for federal funding which will increase the total funding for this program to \$68 million and will allow the state to nearly triple enrollment to 42,000 seniors.

Governor Granholm has created a multi-state purchasing collaboration to help contain Medicaid pharmaceutical costs and has already recruited three states — Vermont, Wisconsin and South Carolina — to combine their purchasing power with Michigan's. More states are expected to join in the near future. Multi-state drug purchases and other pharmacy cost containment initiatives will generate a \$40 million general fund savings in fiscal year 2004.

Public Safety – Law enforcement is a critical, core function of state government and remains a high priority for the Governor. In order to maintain Michigan State Police (MSP) trooper levels, funding sources must be found to create a new trooper school. A modest increase in the annual fees for an operator license by \$3, chauffeur license by \$3.50 and the commercial license by \$3.75 will provide an additional \$23.7 million in revenue for a new trooper school, new MSP positions and a safer Michigan.

Revenue Sharing – The Governor's budget recommends \$1.41 billion in payments to local governments, a 3 percent reduction from the current year. The constitutional obligation for fiscal year 2004 is \$694.5 million and is dispersed on a per-capita basis. The remaining \$717.6 million, which is subject to an annual appropriation, is recommended in the budget.

The fiscal year 2004 budget assumes continuation of the previous reductions and an additional 3 percent reduction in discretionary payments. Similar to last year's 3.5 percent reduction, Governor Granholm proposes that the fiscal year 2004 changes be equally distributed to all communities by amending the revenue sharing act. Communities will determine how best to operate local programs with reduced revenue sharing funds while protecting support for first responders in emergency situations.

Employee Savings – A portion of the \$1.7 billion general fund budget shortfall included \$140 million of employee salary and benefit cost increases. These costs included a previously negotiated 3 percent pay raise, insurance increases, and a 3.7 percent increase

in the actuarially determined retirement rate. The total cost of these increases exceeds \$250 million, including general fund costs of \$140 million.

Consistent with tight budgets from prior years, the Governor's recommendation does not fund the increases associated with employee wage and benefits. Rather than simply asking the agencies to absorb these costs within their budgets, potentially resulting in thousands of employee layoffs, the Governor is asking the employees and unions to become part of the solution. The Office of State Employer has begun negotiations with each union in the hope of identifying savings at least equal to the \$250 million in increased costs.

Securing Additional Dollars – The recommended budget proposes closing a number of different tax loopholes in five different categories. The closings will generate additional revenues of \$109 million for the general fund and \$20 million for the school aid fund. These loopholes involve a situation where individuals and organizations have found a way to circumvent the intent of the original statute and subsequently are not paying their fair share of the tax burden, shifting that burden to other taxpayers.

In these difficult economic times, it is reasonable that the state should undertake a careful review of its existing fee structure. As part of her solution to fix the structural deficit in 2004 the Governor is recommending increases in a number of different categories of user fees across eight different state agencies. Combined, these new and increased fees will generate \$119 million in new revenue for the general fund.

Governor Granholm's recommended budget for 2004 is balanced and fulfills a promise to protect what matters most. In reducing government spending by more than a billion dollars, implementing modest revenue enhancements and maximizing the return on our dollars, we have squarely addressed the structural deficit that we inherited.

"Citizens across the state told us to protect education, to help children and families in need, to keep our neighborhoods and communities safe and to protect our senior citizens," said Governor Granholm. I am proud to tell you that we have done all of those things and closed the historic gap that had existed between spending and revenues in our state."

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A copy of the Governor's recommended budget, this release and related materials are available on the state's web site at www.michigan.gov/budget.